



MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

東方娛樂控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code: 0009

Annual Report 2007

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Wong Pak Ming (*Chairman*)

Ms. Wong Kit Fong

Ms. Wong Yee Kwan, Alvina

Ms. Law Kee, Alice

Independent Non-executive Directors:

Mr. Tang Kai Kui, Terence

Mr. Choy Sze Chung, Jojo

Mr. Tsui Pui Hung

COMPANY SECRETARY

Mr. Li Chi Chung

QUALIFIED ACCOUNTANT

Mr. Kam Leung Ming, Eddie

SOLICITORS

Michael Li & Co.

14th Floor, Printing House

6 Duddell Street

Central

Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

35/F One Pacific Place

88 Queensway

Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd.

Wing Lung Bank Ltd.

The Hongkong and Shanghai

Banking Corporation Ltd.

AUDIT COMMITTEE

Mr. Choy Sze Chung, Jojo (*Chairman*)

Mr. Tang Kai Kui, Terence

Mr. Tsui Pui Hung

REMUNERATION COMMITTEE

Mr. Tang Kai Kui, Terence (*Chairman*)

Mr. Wong Pak Ming

Mr. Tsui Pui Hung

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1511

No. 9 Queen's Road Central

Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting of Mandarin Entertainment (Holdings) Limited (the “**Company**”) will be held at Rooms 1801-2, Westlands Centre, 20 Westlands Road, Quarry Bay, Hong Kong on Thursday, 29 May 2008 at 3:00 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors (the “**Directors**”) and auditors of the Company for the year ended 31 December 2007;
2.
 - (a) To re-elect Ms. Law Kee, Alice as executive Director;
 - (b) To re-elect Mr. Choy Sze Chung, Jojo as independent non-executive Director;
 - (c) To re-elect Mr. Tsui Pui Hung as independent non-executive Director;
 - (d) To authorise the board of Directors to fix the Directors’ remuneration;
3. To appoint auditor of the Company and to authorise the board of Directors to fix its remuneration;
4. To, as special business, consider and, if thought fit, passing the following resolution as an ordinary resolution:

“**THAT:**

- (a) subject to paragraph (c) below, pursuant to the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with unissued shares of the Company (the “**Shares**”) and to make or grant offers, agreements and options, including warrants to subscribe for Shares, which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of any options granted under the existing share option scheme of the Company; or (iii) any scrip dividend or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time; or (iv) any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

(aa) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution; and

(bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of resolution no. 5),

and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purposes of this resolution:

“**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda (as amended) (the “**Companies Act**”) or any other applicable law of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution;

“**Rights Issue**” means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of Shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).”

NOTICE OF ANNUAL GENERAL MEETING

5. To, as special business, consider and, if thought fit, passing the following resolution as an ordinary resolution:

“**THAT:**

- (a) the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to purchase the Shares on the Stock Exchange or any other stock exchange on which the Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the Companies Act and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and
 - (c) for the purposes of this resolution, “**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act or any other applicable law of Bermuda to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.”
6. To, as special business, consider and, if thought fit, passing the following resolution as an ordinary resolution:

“**THAT** the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution.”

NOTICE OF ANNUAL GENERAL MEETING

7. To, as special business, consider and, if thought fit, passing the following resolution as an ordinary resolution:

“**THAT** the authorized share capital of the Company be increased from HK\$100,000,000 divided into 1,000,000,000 Shares of HK\$0.10 each to HK\$1,000,000,000 divided into 10,000,000,000 Shares of HK\$0.10 each by the creation of an additional 9,000,000,000 new Shares of HK\$0.10 each and the Directors be and are hereby authorised to do such acts and incidental things and execute such documents to effect the resolution hereof.”

Yours faithfully
For and on behalf of
the board of directors of
Mandarin Entertainment (Holdings) Limited
Wong Pak Ming
Chairman

Hong Kong, 29 April 2008

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place of
business in Hong Kong:*
Suite 1511
No.9 Queen's Road Central
Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the annual general meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the annual general meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's branch registrar and transfer office in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting. Completion and return of a form of proxy will not preclude a shareholder of the Company from attending in person and voting at the annual general meeting or any adjournment thereof, should he so wish.
3. In relation to proposed resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the directors of the Company of a general mandate to authorise the allotment and issue of shares of the Company under the Listing Rules. The Directors have no immediate plans to issue any new shares of the Company other than Shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.
4. In relation to proposed resolution no. 5 above, the directors wish to state that they will exercise the powers conferred thereby to repurchase Shares in circumstances which they deem appropriate for the benefit of the shareholders of the Company. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules is set out in the circular sent to shareholders together with this 2007 annual report.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Following the film of “*Seven Swords*” and “*Dragon Tiger Gate*”, our action film “*Flash Point*” scored encouraging results in last year and was awarded “Best Action Choreography”. Action films have become the pillar of our film production and distribution business and our confidence of success. Also, the weird film called “*Missing*” directed by *Tsui Hark* and TV play “*Big Theater*” adapted from film “*Phantom Lover*” are now on footage and will have its premiere within the year.

PROSPECTS

The film we have begun shooting this year is also an action film, titled “*Yip Man*” (KungFu master of *Bruce Lee*) and themed on “*Wing Chun Kuen*”. Directed by *Wilson Yip*, with *Sammo Hung* providing guides for martial arts and *Donnie Yen* acting as *Yip Man*, it is an another film you can't miss.

We will also produce comedy films, which is one of our established strengths. We are going to shoot a New Year comedy film called “*All's Well End's Well 2009*”. “*All's Well End's Well*” set a box office record in 1992 and “*All's Well End's Well 97*” topped as one of the box performances in that year. “*All's Well End's Well 2009*” will surely be an impressive hit.

In order to avoid over relying on traditional film production business of which the market situation is relatively versatile, the company started to have its investment and fund and treasury management policy in securities and properties as well as money lending business from the last quarter of 2007. We hope that such diversification policy will bring the group more stable income resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In the year under review, the Group recorded a revenue of HK\$76.7 million (2006: HK\$77.2 million). Film distribution and licensing, film processing and advertising and promotional services contributed to 63.9%, 25.9% and 10.2% respectively of the Group's revenue. There was no significant change in revenue compared with the prior year after the execution of the CEPA (Closer Economic Partnership Arrangement) Model by the Group.

The Group reported a loss of HK\$40 million compared to a profit of HK\$1.7 million last year. Loss per share is 8.86 HK cents calculated on the 576,000,000 shares in issue in 2007 compared with earnings of 0.44 HK cents per share of the prior year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2007, the Group's gross assets stood at HK\$219.2 million (2006: HK\$109.9 million). The net tangible assets of the Group is HK\$162.6 million or 28.24 HK cents per share compared with HK\$54.7 million or 16.57 HK cents per share in 2006. The cash and cash equivalents is HK\$100.9 million compared with HK\$16.7 million in 2006.

CAPITAL STRUCTURE

The Company has made two placements of shares during the year, under which 30,000,000 and 36,000,000 shares were allotted and issued at HK\$1.33 each and HK\$0.57 each on 8th June, 2007 and 17th September, 2007 respectively. In another one Open Offer 180,000,000 shares were allotted and issued on 14th September, 2007 at HK\$0.50 each. The gross proceeds raised were used for general working capital purposes and investment in securities and properties for the Group. There has been no change in capital structure of the Company for the rest of the year.

BORROWINGS AND BANKING FACILITIES

As at 31st December, 2007, the Group had outstanding short-term bank and other borrowings of approximately HK\$19.9 million (2006: HK\$5.4 million). The main purpose of the borrowings is to finance the daily operation of the Group.

As at 31st December, 2007, the aggregate banking facilities of the Group were approximately HK\$13.4 million (2006: HK\$17.15 million). The utilization rate of banking facilities was about 51.4% (2006: 34.9%). These banking facilities were secured by certain land and buildings of the Group.

Included in other loans is an amount in Renminbi of HK\$2.9 million (2006: HK\$: 2.9 million). Except for that the bank and other borrowings are made in Hong Kong Dollars.

As at 31st December, 2007, the gearing ratio of the Group, calculated at total borrowings divided by shareholders' funds, was 12.6% (2006: 34.7%).

MANAGEMENT'S DISCUSSION AND ANALYSIS

NET CURRENT ASSETS AND WORKING CAPITAL

As at 31st December, 2007, the Group's total current assets and current liabilities were approximately HK\$196.3 million (2006: HK\$79.8 million) and HK\$55.3 million (2006: HK\$40.8 million) respectively. The Group services its debts primarily through cash generated from its operations. After considering the financial resources available to the Group including internally and externally generated funds, the available unutilized banking facilities in 2007, the Directors are of the opinion that the Group has sufficient resources and working capital to meet its foreseeable capital expenditure and debt repayment requirement.

EXPOSURE OF FOREIGN EXCHANGE

The Group's assets and liabilities are mainly dominated in Hong Kong Dollars, United States Dollars and Renminbi. Income and expenses derived from the operations in PRC were mainly dominated in Renminbi. There is no significant exposure to the fluctuation of foreign exchange rate, but the Group will closely monitor the market and make appropriate adjustments and measures when necessary.

INVESTMENTS

During the year, the Group has held equity investments for trading in HK stock market.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Save for those disclosed in note 35 to the financial statements, there are no other capital commitments nor contingent liabilities that the Group is aware of.

STAFF COST, DIRECTOR BONUSES AND SHARE OPTION SCHEME

Staff cost for the year ended 31st December, 2007 was HK\$20.5 million (2006: HK\$16.1 million) representing an increase of 27.3%. The Group had a workforce of about 84 staff (2006: 76 staff) at the end of 2007. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis.

The Group has adopted a share option scheme under which the Directors of the Company may, at their discretion, invite Executive Directors and full-time employees of the Group to take up options which entitle them to subscribe for shares representing up to a maximum of 10% of the issued share capital of the company from time to time. During the year ended 31st December, 2007, options were granted on 10th May. Details of the share options granted under the scheme are set out in note 33 to the consolidated financial statements.

FUTURE PROSPECTS AND OUTLOOK

In the coming year, the Group will continue with its strategy of developing in its core activities as well as venturing into new opportunities, such as the investment in securities in Hong Kong and investment in properties in China, for potential substantial growth and diversifying its business. In the long run, the group will be benefited from establishing new income sources and maintaining a strong cash position.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the “Board”) is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. With effect from 1 January 2005, the Company has applied the principal and complied with the requirements of the Code on Corporate Governance Practices (the “Code”) of the Listing Rules save and except certain deviations as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

DIRECTORS

Directors’ Securities Transactions

The Company has adopted the code of conduct regarding directors’ securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. Having made specific enquiry of all directors, they all have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

Board of Directors

The Board is responsible for the leadership and control of the Company and oversees the Company’s businesses, strategic decisions and performances while the Board has delegated the day-to-day management and operations of the Company’s businesses to the management of the Company and its subsidiaries.

The Board is currently comprises:

Executive Directors:

Wong Pak Ming (*Chairman*)
Wong Kit Fong
Wong Yee Kwan, Alvina
Law Kee, Alice

Independent non-executive Directors:

Tang Kai Kui, Terence
Choy Sze Chung, Jojo
Tsui Pui Hung

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

For the financial year ended 31 December 2007, 4 Board meetings were held and the attendance of each director is set out as follows:

Name of director	Number of Board meetings attended in the financial year ended	
	31 December 2007	Attendance rate
Wong Pak Ming	4	4/4
Wong Kit Fong	4	4/4
Wong Yee Kwan, Alvina	4	4/4
Law Kee, Alice	0	0/4 (after appointment on 16 October 2007)
Tang Kai Kui, Terence	4	4/4
Choy Sze Chung, Jojo	1	1/4 (after appointment on 1 September 2007)
Tsui Pui Hung	1	1/4 (after appointment on 9 September 2007)
Ko Tin Chow	4	4/4 (before resignation on 16 October 2007)
Wan Ngar Yin, David	3	3/4 (before resignation on 9 September 2007)
Lai Voon Wai	2	2/4 (before resignation on 31 August 2007)

The Board held meeting from time to time whenever necessary and at least 4 regular Board meetings will be held each year. Minutes or every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting. The Board also ensures that it is supplied in a timely manner with the agenda and all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations are followed.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Wong Pak Ming (“Mr. Wong”) is both the chairman and founder of the Company. The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is oversight by Mr. Wong with the assistance of the executive directors as well as the senior management.

The Board considers that Mr. Wong, being the founder of the Group, possesses in-depth knowledge of the Group and has developed extensive and valuable network in the film production industry and therefore can enable the Group to make and implement decision promptly and efficiently which is beneficial to the business prospects of the Group. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management as the Board, comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operation of the Group.

Ms. Wong Kit Fong is Mr. Wong's sister while Ms. Wong Yee Kwan, Alvina is Mr. Wong's daughter.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All directors (including executive or independent non-executive directors) are appointed for a fixed term.

However, they are appointed subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the bye-laws of the Company (the "Bye-laws").

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established with specific written terms of reference on 21 September 2005 comprising 1 executive director and 2 independent non-executive directors. Mr. Tang Kai Kui, Terence is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions, inter alias, include making recommendations to the Board on the Company's policy and structure for all remuneration of directors of the Company and senior management as well as reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Company has adopted a share option scheme on 21 August 2001, which serves as an incentive to attract, retain and motivate staff, including directors. Details of the share option scheme are set out in note 33 to the financial statements. The emolument payable to directors depends on their respective contractual terms under the service contracts (if any), and as recommended by the Remuneration Committee. Details of the directors' emolument are set out in note 12 to the financial statements.

CORPORATE GOVERNANCE REPORT

Meeting of the Remuneration Committee shall be held at least once a year. One meeting was held in 2007 and during the meeting the remuneration policy in remunerating the directors and senior management of Group was under review and none of the executive directors participated in the determination of their own remuneration. The attendance of each member is set out as follows:

Name of director	Number of Committee meeting attended in the financial year ended 31 December 2007		Attendance rate
Wong Pak Ming	1	1/1	
Tang Kai Kui, Terence	1	1/1	
Tsui Pui Hung	0	0/1	(after appointment on 10 September 2007)
Wan Ngar Yin, David	1	1/1	(before resignation on 9 September 2007)

ACCOUNTABILITY AND AUDIT

Financial Reporting

The directors are responsible for overseeing the preparation of accounts and financial statements of each financial period. A statement by the auditors about their reporting responsibilities is set out on page 26 of this Annual Report.

Internal Control

The Company has designed a set of internal control policy and the Board is responsible for overseeing the Company's system of internal control.

The Board has conducted review of the effectiveness of the system of internal control.

Audit Committee

The audit committee of the Company (the "Audit Committee") has been established with specific written terms of reference comprising 3 independent non-executive directors. 1 member has appropriate professional qualifications or accounting or related financial management expertise. Mr. Choy Sze Chung, Jojo is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditors of the Company.

CORPORATE GOVERNANCE REPORT

According to the existing terms of reference of the Audit Committee, its major roles and functions, inter alia, is to review the half-year and annual financial statements before submission to the Board and to review the Company's statement on internal control system. 2 meetings were held in 2007. The attendance of each member is set out as follows:

Name of director	Number of Committee meeting attended in the financial year ended	
	31 December 2007	Attendance rate
Tang Kai Kui, Terence	2	2/2
Choy Sze Chung, Jojo	1	1/2 (after appointment on 1 September 2007)
Tsui Pui Hung	1	1/2 (after appointment on 10 September 2007)
Wan Ngar Yin, David	1	1/2 (before resignation on 9 September 2007)
Lai Voon Wai	1	1/2 (before resignation on 31 August 2007)

At the meetings held during the year, the Audit Committee reviewed the financial reports for the year ended 31 December 2006 and six months ended 30 June 2007 and reviewed the effectiveness of internal control system of the Company.

Auditors' Remuneration

During the financial year ended 31 December 2007, the remuneration paid to the Company's auditors, Deloitte Touche Tohmatsu, is set out as follows:

	Services rendered Fees paid/payable (HK\$'000)
Audit services	1,001
Non-audit services	263
	<hr/>
	1,264
	<hr/> <hr/>

DIRECTORS' REPORT

The Directors have pleasure in presenting to the shareholders their annual report together with the audited consolidated financial statements for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 27 of the annual report.

The directors do not recommend the payment of a dividend for the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 32 to the consolidated financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2007, the amount of the Company's reserve available for distribution to shareholders which represent the share premium, special reserve and accumulated losses was HK\$102,748,000.

As at 31st December, 2006, the Company had no reserves available for distribution to shareholders as the contributed surplus is less than the accumulated losses of the Company.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wong Pak Ming (*Chairman*)

Ms. Wong Kit Fong

Ms. Wong Yee Kwan, Alvina

Ms. Law Kee, Alice

(appointed on 16th October, 2007)

Mr. Ko Tin Chow

(resigned on 16th October, 2007)

Independent non-executive directors:

Mr. Tang Kai-Kui, Terence

Mr. Choy Sze Chung, JoJo

(appointed on 1st September, 2007)

Mr. Tsui Pui Hung

(appointed on 9th September, 2007)

Mr. Wan Ngar Yin, David

(resigned on 9th September, 2007)

Mr. Lai Voon Wai

(resigned on 31st August, 2007)

In accordance with Bye-laws 87(1) and 87(2), Ms. Wong Kit Fong and Mr. Tang Kai Kui, Terence shall retire from office by rotation at the forthcoming annual general meeting, and both of them will not offer themselves for re-election as Directors.

In accordance with Bye-law 86(2), Ms. Law Kee, Alice, Mr. Choy Sze Chung, JoJo and Mr. Tsui Pui Hung shall retire from office by rotation at the forthcoming annual general meeting, and being eligible, offer himself/herself for re-election as executive/independent non-executive Director (as the case may be).

The term of office of each of the independent non-executive directors is for an initial term of one year except for Mr. Tang Kai-Kui, Terence which is for an initial term of one and half years and thereafter all of which may be extend for such period as both parties agree in writing and the independent non-executive directors are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company considers all of the independent non-executive directors are independent.

Each of the executive directors has entered into a service contract with the Company for an initial term of two years which commenced on 1st September, 2001, except for Ms. Wong Yee Kwan, Alvina which commenced on 1st September, 2003, Mr. Ko Tin Chow which commenced on 1st December, 2006 and Ms. Law Kee, Alice which commenced on 16th October, 2007 for a term of one year and all of which continue thereafter unless and until terminated by either party by giving to the other party not less than three months' prior written notice.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

At 31st December, 2007, the interests of the directors, the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held (Note 1)	Percentage of the issued share capital of the Company
Mr. Wong Pak Ming ("Mr. Wong")	Held by controlled corporations (Note 2)	228,300,000	39.6%
	Beneficial owner	2,593,000	0.5%
	Held by spouse	411,000	0.1%
		<u>231,304,000</u>	<u>40.2%</u>
Ms. Wong Kit Fong	Beneficial owner	3,225,000	0.6%
Ms. Wong Yee Kwan, Alvina	Beneficial owner	4,212,000	0.7%

(b) Directors' interests in the underlying shares of the share options of the Company

Name of director	Number of Options held	Exercisable Period	Exercise price per share
Mr. Wong	366,048	24.12.2006 to 20.8.2011	HK\$0.841
	1,395,000	22.11.2007 to 20.8.2011	HK\$0.789
Ms. Wong Kit Fong	366,048	24.12.2006 to 20.8.2011	HK\$0.841
	1,395,000	22.11.2007 to 20.8.2011	HK\$0.789
Ms. Wong Yee Kwan, Alvina	366,048	24.12.2006 to 20.8.2011	HK\$0.841
	1,395,000	22.11.2007 to 20.8.2011	HK\$0.789
Mr. Tang Kai Kui, Terence	366,048	24.12.2006 to 20.8.2011	HK\$0.841
	2,790,000	22.11.2007 to 20.8.2011	HK\$0.789
	<u>8,439,192</u>		

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY (continued)

Notes:

1. Shares of HK\$0.10 each in the capital of the Company.
2. These shares are held as to 73,300,000 shares by Capeland Holdings Limited and 155,000,000 shares by Idea Storm Holdings Limited, both companies are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.

Save as disclosed above, at 31st December, 2007, none of the directors, the chief executive or their associates had any interests or short positions in shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 33 to the consolidated financial statements.

Details of the share options granted under the share option scheme to certain directors of the Company to subscribe for shares in the Company are as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding as at 1.1.2006	Granted during the year	Outstanding at 1.1.2007	Granted during the year	Adjustments	Forfeited during the year	Outstanding at 31.12.2007
Mr. Wong	23.6.2007	24.12.2006 to 20.8.2011	0.841	-	328,000	328,000	-	38,048	-	366,048
	10.5.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	1,250,000	145,000	-	1,395,000
Ms. Wong Kit Fong	23.6.2007	24.12.2006 to 20.8.2011	0.841	-	328,000	328,000	-	38,048	-	366,048
	10.5.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	1,250,000	145,000	-	1,395,000
Ms. Wong Yee Kwan, Alvina	23.6.2007	24.12.2006 to 20.8.2011	0.841	-	328,000	328,000	-	38,048	-	366,048
	10.5.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	1,250,000	145,000	-	1,395,000
Mr. Ko Tin Chow	23.6.2007	24.12.2006 to 20.8.2011	0.841	-	328,000	328,000	-	38,048	(366,048)	-
	10.5.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	2,500,000	290,000	(2,790,000)	-

DIRECTORS' REPORT

SHARE OPTIONS (continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding as at 1.1.2006	Granted during the year	Outstanding at 1.1.2007	Granted during the year	Adjustments (Note)	Forfeited during the year	Outstanding at 31.12.2007
Mr. Wan Ngar Yin, David	23.6.2007	24.12.2006 to 20.8.2011	0.841	-	328,000	328,000	-	38,048	(366,048)	-
	10.5.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	1,000,000	116,000	(1,116,000)	-
Mr. Tang Kai Kui, Terence	23.6.2007	24.12.2006 to 20.8.2011	0.841	-	328,000	328,000	-	38,048	-	366,048
	10.5.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	2,500,000	290,000	-	2,790,000
				-	1,968,000	1,968,000	9,750,000	1,359,288	(4,638,096)	8,439,192

Details of the share options granted under the share option scheme to certain employees of the Company for shares in the Company are as follows:

Date of grant	Vesting date	Exercisable period	Exercise price per share HK\$	Outstanding at 1st January, 2006	Granted during the year	Outstanding at 1st January, 2007	Granted during the year	Adjustments (Note)	Outstanding at 31st December, 2007
Employees	23.6.2006	23.6.2006 to 24.12.2006 to 20.8.2011	0.841	-	656,000	656,000	-	76,096	732,096
	10.5.2007	10.5.2007 to 22.11.2007 to 20.8.2011	0.789	-	-	-	2,250,000	261,000	2,511,000
				-	656,000	656,000	2,250,000	337,096	3,243,096

Note: The number and exercise price of the share options were adjusted as a result of the completion of Open Offer in the proportion of one Open share for every two existing shares held on 24th August, 2007. The exercise prices shown above represent the adjusted exercise prices as at 31st December, 2007.

The closing price of the Company's shares immediately before 10th May, 2007, the date of grant of the options, was HK\$0.753.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed under the heading "Share Options", at no time during the year was the Company, or any of its subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

(a) Ordinary shares

Name of shareholder	Capacity	Number of issued ordinary shares held <i>(note 1)</i>	Percentage of the issued share capital of the Company
Mr. Wong	Held by controlled corporations <i>(note 2)</i>	228,300,000	39.6%
	Beneficial owner	2,593,000	0.5%
	Held by spouse <i>(note 3)</i>	411,000	0.1%
		<u>231,304,000</u>	<u>40.2%</u>
Mr. Zhang Xun	Beneficial owner	<u>40,040,000</u>	<u>7.0%</u>
Mr. Fang Shu Au ("Mr. Fang")	Beneficial owner	19,500,000	3.4%
	Held by spouse <i>(note 4)</i>	12,000,000	2.1%
		<u>31,500,000</u>	<u>5.5%</u>

(b) Share options

Name of shareholder	Capacity	Number of shares options	Number of underlying shares
Mr. Wong	Beneficial owner	1,761,048	1,761,048

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

1. Shares of HK\$0.10 each in the capital of the Company.
2. These shares are held as to 73,300,000 shares by Capeland Holdings Limited and 155,000,000 shares by Idea Storm Holdings Limited, both of which are incorporated in the British Virgin Islands and are wholly-owned by Mr. Wong beneficially.
3. In accordance with SFO, Mr. Wong's spouse is also deemed to be interested in the shares held by Mr. Wong or in which he is interested.
4. In accordance with SFO, Mr. Fang's spouse is also deemed to be interested in the shares held by Mr. Fang or in which he is interested.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as at 31st December, 2007.

DIRECTORS' INTEREST IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31st December, 2007, the Group had entered into transactions which constituted connected transactions under Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details are set out below:

At 31st December, 2007, the loans from Mr. Zhang Xun, a substantial shareholder of the Company amounted to approximately HK\$13,036,000 (2006: HK\$13,046,000) which are unsecured, interest bearing at 1% and 3% per annum and will be repayable on or before 31st January, 2008.

Other than disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENT POLICY

The Group remunerates its employees including the directors, based on their performance, experience and prevailing market rate. Other employee benefits included insurance and medical cover, subsidised training programme as well as share option scheme. Details of the share option scheme are set out in note 33 to the consolidated financial statements.

The determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for 11% and 41%, respectively, of the Group's total revenue for the year.

The aggregate purchases attributable to the Group's largest supplier and five largest suppliers accounted for 35% and 66%, respectively, of the Group's total purchases for the year.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has any interest in the Group's five largest customers and suppliers.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 39 to the consolidated financial statements.

AUDITOR

The consolidated financial statements have been audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the forthcoming annual general meeting of the Company to appoint auditor of the Company.

On behalf of the Board

WONG Pak Ming

CHAIRMAN

Hong Kong, 21st April, 2008

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WONG Pak Ming, aged 62, is the Chairman of the Company and founder of the Group. Mr. WONG co-founded Cinema City Company Limited and Cinema City (Film Production) Company Limited, both film production companies in Hong Kong, and has over 25 years of experience in the film industry as director, script writer and actor. He has been the Chairman of Movie Producers and Distributors Association of Hong Kong Limited since 1997, an association established in Hong Kong representing the interests of the local film industry.

Ms. WONG Kit Fong, aged 60, is a sister of Mr. Wong Pak Ming. She joined the Group in 1993. Prior to joining the Group, she worked as an accountant in trading companies in Hong Kong for over 10 years. She is responsible for financial planning and administrative functions of the Group. She is also a director of a number of subsidiaries of the Company and oversees their overall operations.

Ms. WONG Yee Kwan, Alvina, aged 32, is a daughter of Mr. Wong Pak Ming, was appointed as executive director of the Company on 1st September, 2003. Ms. Wong holds a Bachelor Degree in arts from University of Toronto and attained a certificate in marketing management issued by The George Brown College of Applied Arts and Technology. Prior to her appointment as executive director of the Company, she has been appointed a director of Chili Advertising & Promotions Limited (“Chili”) since 20th August, 2000, the Company’s subsidiary which is engaged in provision of promotional services for films. Ms. Wong now supervises Chili’s overall operation and is also responsible for coordinating with media reporters and other promotional events organized by Chili.

Ms. LAW Kee, Alice, aged 41, is the Assistant President of the Company. Prior to joining the Group, she worked in several companies as Business Development and Marketing Promotion Executive. Ms. Law has over 15 years experience in Trading & IT-related business. She also has extensive experience in Management and Marketing Promotion areas.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TANG Kai Kui, Terence, aged 49, is a member of the Royal Institute of British Architects. Mr. Tang is a director of an interior design and engineering company.

Mr. CHOY Sze Chung, Jojo, aged 49, is the Vice Chairman of National Resources Securities Limited. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy has been invited to various investment seminars. Mr. Choy obtained his Master of Business Administration Degree from University of Wales, Newport and his Master of Business Law Degree from Monash University. Mr. Choy is also the Vice Chairman of the Institute of Securities Dealers Limited, an Independent Non-executive Director of Chengdu PUTIAN Telecommunications Cable Company Limited, an Independent Non-executive Director of Zhaojin Mining Industry Company Limited, an Independent Non-executive Director of Jade Dynasty Group Limited, a Committee Member of Society of Registered Financial Planner Ltd., a Fellow Member of Institute of Financial Accountants, a Fellow Certified Financial Strategist of Hong Kong Institute of Investors, a Fellow Member of the Institute of Compliance Officer, a Member of CPPCC Shantou, a Honorary President of Shantou Overseas Friendship Association and the Committee Member of Rotary Club Kowloon West.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. TSUI Pui Hung, aged 33, is a practicing solicitor of High Court of Hong Kong and an independent non-executive director of B.A.L. Holdings Limited. Mr. Tsui holds the degrees of a Master in Laws from University of London, a Bachelor of Laws (with Honours) from Manchester Metropolitan University, a Bachelor of Science (with Honours) from the Chinese University of Hong Kong, a Postgraduate Certificate in Laws from University of Hong Kong and a Diploma in Translation from the Chinese University of Hong Kong. Mr. Tsui has years of management experience and is familiar with internal control issues and regulatory rules of listed company.

OTHER SENIOR MANAGEMENT

Mr. KAM Leung Ming, Eddie, aged 33, is the qualified accountant and was appointed as the Financial Controller of the group on 1st November, 2007. Prior to joining the Group, Mr. KAM has over 11 years of financial management, accounting, auditing and corporate finance experiences. He holds a Bachelor Degree of Arts (Hons.) majoring in Accountancy from The Hong Kong Polytechnic University. He is a member of The Institute of Chartered Accountants in England and Wales and also a member of The Hong Kong Institute of Certified Public Accountants.

Mr. KO Tin Chow, aged 58, is the senior manager responsible for supervising the film processing business of the Group. Mr. Ko has over 35 years of experience in the film processing industry. Prior to joining the Group in 1995, he was the general manager of Hong Kong Color Moviela Limited, a film processing company in Hong Kong. He is the Chairman of the Hong Kong & Kowloon Film Laboratory Merchants' Association Limited.

Mr. CHOW Ming Sang, aged 59, is the production manager responsible for the operation of the printing division of the film processing business of the Group. Mr. Chow joined the Group since its establishment and has over 36 years of experience in the film processing industry.

Mr. FUNG Hon Wah, aged 56, is the production manager responsible for the operation of the special effects division of the film processing business of the Group. Mr. Fung joined the Group since its establishment and has over 33 years of experience in the film processing industry.

Mr. LAU Siu Sun, aged 60, is the production manager supervising the quality control division of the film processing business of the Group. Mr. Lau joined the Group since its establishment and has over 33 years of experience in the film processing industry.

Mr. WONG Tung Ming, aged 61, is the production manager who has overall responsibilities for film processing and film subtitling. Mr. Wong joined the Group since its establishment and has over 37 years of experience in the film processing industry.

Ms. HO Yuen Man, Janice, aged 40, is the finance manager responsible for the financial and accounting functions of the film processing unit of the Group. Miss Ho holds a diploma in accountancy awarded by Vocational Training Council in Hong Kong. She also holds a certificate accredited by The Hong Kong Association of Accounting Technicians as an "Accounting Technician (H.K.A.T.)".

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MANDARIN ENTERTAINMENT (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Mandarin Entertainment (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 83, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

21st April, 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Revenue	7	76,718	77,165
Cost of sales		(88,847)	(60,248)
Gross (loss) profit		(12,129)	16,917
Other income		7,942	7,945
Administrative expenses		(27,515)	(22,984)
Fair value loss on investments held for trading		(1,711)	–
Impairment loss recognised in respect of interests in jointly controlled entities	18	(3,500)	–
Share of loss of jointly controlled entities		(2,341)	(6)
Finance costs	9	(939)	(1,088)
(Loss) profit before tax		(40,193)	784
Income tax credit	10	126	889
(Loss) profit for the year, attributable to equity holders of the Company	11	(40,067)	1,673
Dividends	13	–	–
(Loss) Earnings per share	14		
Basic		(8.86) HK cents	0.44 HK cents
Diluted		N/A	0.44 HK cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	3,765	2,936
Prepaid lease payments	16	2,428	2,503
Available-for-sale investments	17	–	3,796
Interests in jointly controlled entities	18	16,664	20,820
		<u>22,857</u>	<u>30,055</u>
CURRENT ASSETS			
Film rights		720	1,440
Film production in progress		53,202	38,646
Prepaid lease payments	16	75	75
Inventories	19	1,853	1,680
Property held for sale	20	4,561	–
Investments held for trading	21	16,350	–
Trade and other receivables and deposits paid	22	11,508	15,600
Loan receivable	23	5,500	–
Amount due from a jointly controlled entity	24	1,349	602
Amount due from a related company	25	–	5,042
Tax recoverable		297	17
Pledged bank deposits	26	533	1,556
Bank balances and cash	27	100,358	15,172
		<u>196,306</u>	<u>79,830</u>
CURRENT LIABILITIES			
Trade and other payables and deposits received	28	35,220	35,360
Bank and other borrowings – due within one year	29	19,882	5,362
Tax payable		83	–
Obligations under a finance lease – due within one year	30	92	92
		<u>55,277</u>	<u>40,814</u>
NET CURRENT ASSETS		<u>141,029</u>	<u>39,016</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>163,886</u>	<u>69,071</u>

CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
NON-CURRENT LIABILITIES			
Bank and other borrowings – due after one year	29	537	13,627
Deferred taxation	31	508	471
Obligations under a finance lease – due after one year	30	192	284
		<u>1,237</u>	<u>14,382</u>
NET ASSETS			
		<u>162,649</u>	<u>54,689</u>
CAPITAL AND RESERVES			
Share capital	32	57,600	33,000
Reserves		105,049	21,689
		<u>162,649</u>	<u>54,689</u>
TOTAL EQUITY			
		<u>162,649</u>	<u>54,689</u>

The consolidated statements on pages 27 to 83 were approved and authorised for issue by the Board of Directors on 21st April, 2008 and are signed on its behalf by:

WONG Pak Ming
DIRECTOR

WONG Kit Fong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007

	Attributable to equity holders of the Company						Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Special reserve HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	
At 1st January, 2006	33,000	34,653	1,121	17,926	–	(34,326)	52,374
Gain on fair value change of available-for-sale investments recognised in equity	–	–	1,074	–	–	–	1,074
Transferred to profit or loss on sale of available-for-sale investments	–	–	(955)	–	–	–	(955)
Profit for the year	–	–	–	–	–	1,673	1,673
Total recognised income and expense for the year	–	–	119	–	–	1,673	1,792
Recognition of equity-settled share-based payment expenses	–	–	–	–	523	–	523
At 31st December, 2006	33,000	34,653	1,240	17,926	523	(32,653)	54,689
Transferred to profit or loss on sale of available-for-sale investments	–	–	(1,240)	–	–	–	(1,240)
Loss for the year	–	–	–	–	–	(40,067)	(40,067)
Total recognised income and expense for the year	–	–	(1,240)	–	–	(40,067)	(41,307)
Issue of shares	24,600	125,820	–	–	–	–	150,420
Transaction costs attributable to issue of shares	–	(3,848)	–	–	–	–	(3,848)
Transferred to accumulated losses on forfeiture of share options	–	–	–	–	(917)	917	–
Recognition of equity-settled share-based payment expenses	–	–	–	–	2,695	–	2,695
At 31st December, 2007	57,600	156,625	–	17,926	2,301	(71,803)	162,649

The special reserve of the Group mainly represents the sum of the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation in 2001 of approximately HK\$10,420,000 and the consideration for the acquisition of additional interests in jointly controlled entities which became wholly owned subsidiaries by the substantial shareholder of the Company prior to the group reorganisation of HK\$7,506,000.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	(40,193)	784
Adjustments for:		
Interest income	(1,303)	(325)
Finance costs	939	1,088
Release of prepaid lease payments	75	75
Depreciation of property, plant and equipment	1,294	1,875
Impairment on trade and other receivables	3,289	2,716
Share of loss of jointly controlled entities	2,341	6
Impairment loss recognised in respect of interests in jointly controlled entities	3,500	–
Impairment loss recognised in respect of film production in progress	16,827	2,621
Loss on disposal of property, plant and equipment	200	4
Gain on disposal of available-for-sale investments	(2,173)	(5,040)
Fair value loss on investments held for trading	1,711	–
Reversal of impairment loss on trade and other receivables	(1,153)	–
Equity-settled share-based payment expenses	2,695	523
Operating cash flows before movements in working capital	(11,951)	4,327
(Increase) decrease in film rights and production in progress	(30,663)	11,628
(Increase) decrease in inventories	(173)	327
Increase in property held for sale	(4,561)	–
Increase in investments held for trading	(18,061)	–
Decrease (increase) in trade and other receivables and deposits paid	1,956	(3,890)
Increase in amount due to a jointly controlled entity	(747)	(430)
Decrease in amount due from a related company	5,042	772
Decrease in trade and other payables and deposits received	(140)	(8,992)
Cash (used in) generated from operations	(59,298)	3,742
Hong Kong Profits Tax refunded	157	600
Hong Kong Profits Tax paid	(191)	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(59,332)	4,342

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

	2007 HK\$'000	2006 HK\$'000
INVESTING ACTIVITIES		
Increase in loan receivable	(5,500)	–
Purchases of property, plant and equipment	(2,323)	(191)
Capital contribution to a jointly controlled entity	(1,685)	(955)
Proceeds from disposal of available-for-sale investments	4,729	10,699
Interest received	1,303	325
Decrease (increase) in pledged bank deposits	1,023	(45)
Purchase of available-for-sale investments	–	(2,115)
Proceeds from disposal of property, plant and equipment	–	30
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(2,453)	7,748
FINANCING ACTIVITIES		
Proceeds from issue of shares	150,420	–
Bank and other borrowings raised	7,080	2,000
Repayment of bank and other borrowings	(5,234)	(8,188)
Expenses on issue of shares	(3,848)	–
Interest paid	(939)	(1,088)
Repayment of obligations under a finance lease	(92)	(84)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	147,387	(7,360)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,602	4,730
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	14,756	10,026
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER	100,358	14,756
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	100,358	15,172
Bank overdraft	–	(416)
	100,358	14,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

1. GENERAL

The Company was incorporated in Bermuda on 9th May, 2001 as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding. The principal activities of its subsidiaries are shown in note 41.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(S)”)

In the current year, the Group and the Company have applied, for the first time, the following new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(S)”) (continued)

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 (Amendment)	Share-based Payment ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions ³
HK(IFRIC) – INT 12	Service Concession Arrangements ⁴
HK(IFRIC) – INT 13	Customer Loyalty Programmes ⁵
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

¹ Effective for annual periods beginning on or after 1st January, 2009

² Effective for annual periods beginning on or after 1st July, 2009

³ Effective for annual periods beginning on or after 1st March, 2007

⁴ Effective for annual periods beginning on or after 1st January, 2008

⁵ Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entities are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for the goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Income from the production and distribution of films is recognised when the production is completed and released, the film has been distributed to the cinema circuit and the amount can be measured reliably, which is generally when the cinema circuit confirms to the Group its share of box office receipts.

Income from the licensing of the distribution and broadcasting rights over films and television series is recognised when the Company's entitlement to such payments has been established which, subject to the terms of the relevant agreements, is usually upon delivery of the film negatives to the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Amounts received for the distribution and broadcasting rights over films and television series before completion of production are accounted for as receipts in advance and grouped under trade and other payables in the balance sheet.

Income from the provision of film processing services is recognised when the services are provided.

Advertising and promotional service income is recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Buildings are stated in the consolidated balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Other property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on revaluation of buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sales or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, whether shorter, the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments, which represent up-front payments to acquire leasehold land interest, are stated at cost and released to the consolidated income statement over the period of the lease on a straight-line basis.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting period or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property held for sale

Property held for sale is stated at the lower of the cost and estimated market value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivable, amount due from a jointly controlled entity/a related company, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL or loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

Financial liabilities including bank and other borrowings and trade and other payables of the Company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Film rights and production in progress

Perpetual film rights acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Costs of film rights represent the purchase price of the perpetual film rights and are amortised over the period of two to twenty years based on the expected income streams.

Film production in progress represents films and television series under production and is stated at production costs incurred to date, less accumulated impairment losses. Such production costs are carried forward as production in progress.

Retirement benefits costs

Payments to defined contribution retirement benefit plans and Mandatory Provident Fund Scheme are charged as expense when employees have rendered services entitling them to the contributions.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment on trade and other receivables and amount due from a jointly controlled entity

Management regularly reviews the recoverability and/or aging of trade receivables and amount due from a jointly controlled entity. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value.

Estimated impairment loss on film production in progress

Management regularly reviews the recoverability of the Group's film production in progress with reference to its intended use and current market environment. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on film production in progress is required, the Group takes into consideration the intended use of the assets, the current market environment, the estimated market value of the assets and/or the present value of future cash flow expected to be received. Impairment is recognised based on the higher of estimated future cash flow and estimated market value.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 29 and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and their associated risks thereto. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007 HK\$'000	2006 HK\$'000
Financial assets		
Fair value through profit or loss		
Held for trading	16,350	–
Loans and receivables (including cash and cash equivalents)	113,004	30,145
Available-for-sale financial assets	–	3,796
Financial liabilities		
Amortised cost	<u>34,539</u>	<u>38,276</u>

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivable, amount due from a jointly controlled entity/a related company, pledged bank deposits, bank balances and cash, trade and other payables, obligations under a finance lease and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
United State dollars ("USD")	–	–	6,885	3,153
Renminbi ("RMB")	13,593	8,062	1,632	5,958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in Hong Kong dollars against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding RMB denominated monetary items as the directors consider that the Group's exposure to USD is insignificant on the ground that HKD is pegged to USD. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes external loans, trade and other payables, amount due from a jointly controlled entity/a related company as well as bank balances where the denomination of the loans, trade and other payables, amount due from a jointly controlled entity/a related company and bank balances is in a currency other than the currency of the Group. A positive number below indicates an increase in profit where Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	RMB	
	2007	2006
	HK\$'000	HK\$'000
Profit or loss	598(i)	115(ii)

(i) This is mainly attributable to the exposure outstanding on RMB payables and loans at year end.

(ii) This is mainly attributable to the exposure outstanding on RMB payables, amount due from a jointly controlled entity/a related company and loans at year end.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loan receivable, pledged bank deposits, fixed rate borrowings, obligations under a finance lease as set out in Notes 23, 26, 29 and 30 respectively.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 27 and 29 for details of the bank balances and bank borrowings respectively). It is the Group's policy to keep its borrowing at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate arising from the Group's HKD borrowing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative financial instruments at the balance sheet date (see notes 27 and 29 for details of bank balances and bank borrowings). The analysis is prepared assuming the amount of monetary assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's (loss) profit for the year ended 31st December, 2007 would decrease/increase by HK\$385,000 (2006: decrease/increase by HK\$38,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable rate debt instruments.

(iii) Other price risk

The Group is exposed to equity price risk through its investments held for trading. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the Stock Exchange. The management manages this exposure by closely monitoring the price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower, loss (profit) for the year ended 31 December 2007 would decrease/increase by HK\$675,000 (2006: Nil) as a result of the changes in fair value of financial assets at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Credit risk

As at 31st December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk on liquid funds, which exposure spread over a number of counterparties.

The Group has concentration of credit risk as 65% (2006: 56%) of the total trade receivables was due from the Group's top five major customers amounting to approximately HK\$1,948,000 (2006: HK\$3,526,000) within the film distribution and licensing business segment. Besides, the Group has concentration of credit risk on deposits paid to directors and several artists for film production with good working relationship. In addition, the Group has another concentration of credit risk on the loan receivable which was due from a company is considered to be of good credit-standing. The borrower is a company incorporated and operating in Hong Kong and acts as an investment holding. Except for the above, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity table

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2007 HK\$'000
2007							
Non-derivative financial instruments							
Trade and other payables	–	1,356	2,670	10,094	–	14,120	14,120
Bank and other borrowings	4.86%	362	687	19,300	574	20,923	20,419
Obligations under a finance lease	4%	9	18	83	231	341	284
		<u>1,727</u>	<u>3,375</u>	<u>29,477</u>	<u>805</u>	<u>35,384</u>	<u>34,823</u>

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2006 HK\$'000
2006							
Non-derivative financial instruments							
Trade and other payables	–	2,614	1,201	15,056	–	18,871	18,871
Bank overdraft	9%	416	–	–	–	416	416
Bank and other borrowings	4.42%	564	3,236	1,398	13,928	19,126	18,989
Obligations under a finance lease	4%	9	18	83	341	451	376
		<u>3,603</u>	<u>4,455</u>	<u>16,537</u>	<u>14,269</u>	<u>38,864</u>	<u>38,652</u>

6c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

7. REVENUE

	2007 HK\$'000	2006 HK\$'000
An analysis of revenue is as follows:		
Film distribution and licensing income	49,001	47,603
Film processing income	19,900	22,438
Advertising and promotional service income	7,817	7,124
	<u>76,718</u>	<u>77,165</u>

8. SEGMENT INFORMATION BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions – film distribution and licensing, film processing and advertising and promotional services. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2007

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE					
External revenue	49,001	19,900	7,817	–	76,718
Inter segment revenue	2,810	2,368	4,294	(9,472)	–
Total revenue	<u>51,811</u>	<u>22,268</u>	<u>12,111</u>	<u>(9,472)</u>	<u>76,718</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

8. SEGMENT INFORMATION (continued) BUSINESS SEGMENTS (continued) 2007 (continued)

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Elimination HK\$'000	Total HK\$'000
RESULT					
Segment result	(24,504)	(2,419)	468	–	(26,455)
Other income					6,789
Unallocated corporate expenses					(12,036)
Fair value loss on investments held for trading					(1,711)
Impairment loss recognised in respect of interests in jointly controlled entities					(3,500)
Share of loss of jointly controlled entities					(2,341)
Finance costs					(939)
Loss before tax					(40,193)
Income tax credit					126
Loss for the year					(40,067)

Inter segment revenue is charged at prevailing market rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

8. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2007 (continued)

BALANCE SHEET

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Unallocated HK\$'000	Total HK\$'000
ASSETS					
Segment assets	61,186	8,878	39	–	70,103
Interests in jointly controlled entities					16,664
Unallocated corporate assets					132,396
Consolidated total assets					<u>219,163</u>
LIABILITIES					
Segment liabilities	29,450	5,204	175	–	34,829
Unallocated corporate liabilities					21,685
Consolidated total liabilities					<u>56,514</u>
OTHER INFORMATION					
Capital expenditure	407	100	262	1,554	2,323
Impairment on trade and other receivables	3,289	–	–	–	3,289
Reversal of impairment loss on trade and other receivables	1,153	–	–	–	1,153
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	261	879	78	76	1,294
Impairment loss recognised in respect of film production in progress	16,827	–	–	–	16,827
Fair value loss on investments held-for-trading	–	–	–	1,711	1,711
Impairment loss recognised in respects of interests in jointly controlled entities	–	–	–	3,500	3,500
Loss on disposal of property, plant and equipment	–	200	–	–	200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

8. SEGMENT INFORMATION (continued) BUSINESS SEGMENTS (continued) 2006

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Elimination HK\$'000	Total HK\$'000
REVENUE					
External revenue	47,603	22,438	7,124	–	77,165
Inter segment revenue	3,720	52	3,830	(7,602)	–
Total revenue	<u>51,323</u>	<u>22,490</u>	<u>10,954</u>	<u>(7,602)</u>	<u>77,165</u>
RESULT					
Segment result	<u>(567)</u>	<u>229</u>	<u>318</u>	<u>–</u>	<u>(20)</u>
Other income					7,945
Unallocated corporate expenses					(6,047)
Share of loss of jointly controlled entities					(6)
Finance costs					<u>(1,088)</u>
Profit before tax					784
Income tax credit					<u>889</u>
Profit for the year					<u>1,673</u>

Inter segment revenue is charged at prevailing market rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

8. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2006 (continued)

BALANCE SHEET

	Film distribution and licensing HK\$'000	Film processing HK\$'000	Advertising and promotional services HK\$'000	Unallocated HK\$'000	Total HK\$'000
ASSETS					
Segment assets	54,421	11,026	1,875	–	67,322
Interests in jointly controlled entities					20,820
Unallocated corporate assets					21,743
Consolidated total assets					<u>109,885</u>
LIABILITIES					
Segment liabilities	29,943	4,114	1,069	–	35,126
Unallocated corporate liabilities					20,070
Consolidated total liabilities					<u>55,196</u>
OTHER INFORMATION					
Capital expenditure	474	53	124	–	651
Impairment on trade and other receivables	2,716	–	–	–	2,716
Release of prepaid lease payments	–	63	–	12	75
Depreciation of property, plant and equipment	209	1,575	76	15	1,875
Impairment loss recognised in respect of film production in progress	2,621	–	–	–	2,621
Loss on disposal of property, plant and equipment	–	4	–	–	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

8. SEGMENT INFORMATION GEOGRAPHICAL SEGMENTS

The Group's customers are located in Hong Kong, the People's Republic of China (the "PRC"), Taiwan, Malaysia, Europe and other parts of Asia. Film distribution, licensing and investment holding business is carried out in Hong Kong and the PRC. The Group's advertising and promotional and film processing divisions are located in Hong Kong.

An analysis of the Group's revenue by geographical market, based on the origin of the services and an analysis of the carrying amount of segment assets and capital additions analysed by the geographical area in which the assets are located, is presented below.

2007

	Hong Kong HK\$'000	The PRC HK\$'000	Japan HK\$'000	Others HK\$'000	Total HK\$'000
Revenue	37,493	13,316	14,325	11,584	76,718

	Hong Kong HK\$'000	The PRC HK\$'000	Japan HK\$'000	Others HK\$'000	Total HK\$'000
Carrying amount of segment assets	98,795	39	–	–	98,834
Additions to property, plant and equipment	2,317	6	–	–	2,323

2006

	Hong Kong HK\$'000	The PRC HK\$'000	Japan HK\$'000	Others HK\$'000	Total HK\$'000
Revenue	46,902	3,802	7,820	18,641	77,165

	Hong Kong HK\$'000	The PRC HK\$'000	Japan HK\$'000	Others HK\$'000	Total HK\$'000
Carrying amount of segment assets	65,670	1,652	–	–	67,322
Additions to property, plant and equipment	651	–	–	–	651

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

9. FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interest on:		
– bank and other loans wholly repayable within five years	921	1,071
– finance leases	18	17
	<u>939</u>	<u>1,088</u>

10. TAXATION

	2007 HK\$'000	2006 HK\$'000
Hong Kong Profits Tax		
– provision for current year	–	164
– overprovision in prior years	(163)	(847)
	<u>(163)</u>	<u>(683)</u>
Deferred tax charge (credit) (note 31)	37	(206)
	<u>37</u>	<u>(206)</u>
Taxation attributable to the Company and its subsidiaries	<u>(126)</u>	<u>(889)</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for both years.

No provision for tax in other jurisdictions for both years has been made in the consolidated financial statements as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

10. TAXATION (continued)

The taxation for the year can be reconciled to the (loss) profit before tax per the consolidated income statement as follows:

	2007 HK\$'000	2006 HK\$'000
(Loss) profit before tax	<u>(40,193)</u>	<u>784</u>
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	(7,034)	137
Tax effect of expenses not deductible for tax purpose	945	989
Tax effect of income not taxable for tax purpose	(1,099)	(986)
Overprovision in prior years	(163)	(847)
Tax effect of tax losses not recognised	6,815	866
Utilisation of tax losses previously not recognised	–	(1,049)
Tax effect on share of loss of jointly controlled entities	<u>410</u>	<u>1</u>
Tax credit for the year	<u>(126)</u>	<u>(889)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

11. (LOSS) PROFIT FOR THE YEAR

	2007 HK\$'000	2006 HK\$'000
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments (note 12)	6,800	4,050
Other staff costs	12,560	11,410
Retirement benefit scheme contributions, excluding directors	596	547
Share-based payment expenses, excluding directors	505	133
Total staff costs	<u>20,461</u>	<u>16,140</u>
Auditor's remuneration	1,001	920
Depreciation of property, plant and equipment		
– owned assets	1,149	1,790
– finance lease	145	85
Release of prepaid lease payments	75	75
Impairment on trade and other receivables	3,289	2,716
Impairment loss recognised in respect of film production in progress (included in cost of sales)	16,827	2,621
Cost of inventories recognised as expenses	50,778	46,815
Loss on disposal of property, plant and equipment	200	4
and after crediting to other income:		
Interest income	1,303	325
Gain on disposal of available-for-sale investments	2,173	5,040
Net foreign exchange gain	340	43
Reversal of impairment loss on trade and other receivable	1,153	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the ten (2006: seven) directors were as follows:

2007

	Wong Pak Ming	Wong Kit Fong	Wong Yee Kwan, Alvina	Law Kee, Alice	Lai Voon Wai*	Wan Ngar Yin, David*	Tsui Pui Hung	Ko Tin Chow*	Choy Sze Chung, JoJo	Tang Kai- Kui, Terence	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	-	-	-	-	80	166	40	-	40	120	446
Other emoluments:											
Salaries and other benefits	1,938	1,299	393	92	-	-	-	380	-	-	4,102
Retirement benefit scheme contributions	12	12	12	7	-	-	-	19	-	-	62
Share-based payment expenses	281	281	281	-	-	225	-	561	-	561	2,190
Total emoluments	2,231	1,592	686	99	80	391	40	960	40	681	6,800

2006

	Wong Pak Ming	Wong Kit Fong	Wong Yee Kwan, Alvina	Lai Voon Wai	Wan Ngar Yin, David	Ko Tin Chow	Tang Kai- Kui, Terence	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	-	-	-	120	240	-	120	480
Other emoluments:								
Salaries and other benefits	1,788	478	374	-	-	480	-	3,120
Retirement benefit scheme contributions	12	12	12	-	-	24	-	60
Share-based payment expenses	65	65	65	-	65	65	65	390
Total emoluments	1,865	555	451	120	305	569	185	4,050

* Lai Voon Wai, Wan Ngar Yin, David and Ko Tin Chow resigned on 31st August, 9th September and 16th October, 2007, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Emoluments of highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company, whose emoluments are included in the disclosure set out in note (a) above. The emoluments of the remaining two (2006: two) highest paid individuals were as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	892	876
Retirement benefit scheme contributions	24	24
	<u>916</u>	<u>900</u>

All of their emoluments were less than HK\$1,000,000 for both years.

- (c) During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during the year.

13. DIVIDENDS

No dividends were paid or proposed during the year ended 31st December, 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 HK\$'000	2006 HK\$'000
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share	<u>(40,067)</u>	<u>1,673</u>
Number of shares	2007	2006
Number of ordinary shares for the purposes of basic (loss) earnings per share	452,408,295	381,467,890
Effect of dilutive potential ordinary shares: Share options issued by the Company	<u>–</u>	<u>399,000</u>
Weighted average number of ordinary shares for the purposes of diluted (loss) earnings per share	<u>452,408,295</u>	<u>381,866,890</u>

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for both years for the Open Offer on 14th September, 2007.

No diluted loss per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Plant, machinery and equipment HK\$'000	Total HK\$'000
COST OR VALUATION						
At 1st January, 2006	1,614	5,491	3,068	525	20,685	31,383
Additions	-	38	-	460	153	651
Disposals	-	-	-	(475)	-	(475)
At 31st December, 2006	1,614	5,529	3,068	510	20,838	31,559
Additions	-	260	940	692	431	2,323
Disposals	-	-	(1,249)	-	(40)	(1,289)
Deficit on revaluation	(729)	-	-	-	-	(729)
At 31st December, 2007	885	5,789	2,759	1,202	21,229	31,864
Comprising:						
At cost	-	5,789	2,759	1,202	21,229	30,979
At valuation – 2007	885	-	-	-	-	885
	885	5,789	2,759	1,202	21,229	31,864
DEPRECIATION AND AMORTISATION						
At 1st January, 2006	537	4,786	2,646	471	18,749	27,189
Provided for the year	96	270	208	85	1,216	1,875
Eliminated on disposals	-	-	-	(441)	-	(441)
At 31st December, 2006	633	5,056	2,854	115	19,965	28,623
Provided for the year	96	241	202	145	610	1,294
Eliminated on disposals	-	-	(1,054)	-	(35)	(1,089)
Eliminated on revaluation	(729)	-	-	-	-	(729)
At 31st December, 2007	-	5,297	2,002	260	20,540	28,099
CARRYING VALUES						
At 31st December, 2007	885	492	757	942	689	3,765
At 31st December, 2006	981	473	214	395	873	2,936

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment are depreciated and amortised on a straight-line basis at the following rates per annum:

Buildings	2.5%
Furniture and fixtures	20%
Leasehold improvements	20%
Motor vehicles	20% – 30%
Plant, machinery and equipment	20%

The Group's buildings were revalued at 31st December, 2007 by Messrs. RHL Appraisal Limited, on depreciated replacement cost approach. Messrs. RHL Appraisal Limited are not connected with the Group. Messrs. RHL Appraisal Limited are members of the Institute of Valuers and have appropriate qualification and recent experiences in valuation of similar properties. The valuation was arrived at by an estimate of new replacement costs of buildings and structures of the property from which deductions are then made to allow for age, conditions, and functional obsolescence.

The net book value of motor vehicles of HK\$942,000 (2006: HK\$395,000) is held under a finance lease.

The buildings of the Group are situated in Hong Kong.

At 31st December, 2007, had all of the buildings of the Group been carried at historical cost less accumulated depreciation and amortisation and accumulated impairment losses, their carrying values would have been approximately HK\$888,000 (2006: HK\$928,000).

16. PREPAID LEASE PAYMENTS

	2007 HK\$'000	2006 HK\$'000
The Group's prepaid lease payments represent medium-term leasehold land in Hong Kong	<u>2,503</u>	<u>2,578</u>
Analysed for reporting purpose as:		
Current assets	75	75
Non-current assets	<u>2,428</u>	<u>2,503</u>
	<u>2,503</u>	<u>2,578</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

17. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK\$'000	2006 HK\$'000
Equity securities listed in Hong Kong	–	3,796

In the current year, the Group disposed of all listed equity securities with carrying amount of HK\$3,796,000, which had been carried at cost less impairment before the disposal. A gain on disposal of HK\$2,173,000 (2006: HK\$5,040,000) has been recognised in profit or loss for the current year.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2007 HK\$'000	2006 HK\$'000
Cost of unlisted investments in jointly controlled entities	26,141	24,456
Impairment loss recognised on cost of unlisted investment in jointly controlled entities	(3,500)	–
Share of post-acquisition losses	(5,977)	(3,636)
	<u>16,664</u>	<u>20,820</u>
Loan to a jointly controlled entity	10,927	10,927
Impairment loss recognised on loan to a jointly controlled entity	(10,927)	(10,927)
	<u>–</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

At 31st December, 2007, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of incorporation/ operations	Proportion of nominal value of issued share capital/ registered capital held indirectly by the Company		Nature of business
			%		
			2007	2006	
Prosper China Limited	Incorporated	British Virgin Islands ("BVI")/ Hong Kong	40	40	Investment holding
北京東方新青年文化發展有限公司	Incorporated	PRC/PRC (note)	40	40	Provision of cultural education courses
浙江東方國際發展有限公司	Incorporated	PRC/PRC (note)	37.5	37.5	Hotel operations
東方橫店影視後期製作有限公司 ("橫店影視製作")	Incorporated	PRC/PRC (note)	49	49	Provision of film processing and post production services for films and television series but not yet commenced operation
Dong Tian Motion Picture Investment Limited ("Dong Tian")	Incorporated	British Virgin Island ("BVI")	50	50	Investment holding

Note: These Companies are sino-foreign equity joint ventures established in the PRC.

During the year, the Group injected an amount of HK\$1,685,000 as capital injection in Dong Tian.

In the opinion of directors of the Company, the Company is determined to withdraw from the investment in 橫店影視製作 and the capital injection of HK\$3,500,000 in prior years was not probable to be recovered and therefore, an impairment loss of HK\$3,500,000 was recognised to the consolidated income statement in 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using the equity method is set out below:

	2007 HK\$'000	2006 HK\$'000
Non-current assets	34,227	34,644
Current assets	45,414	47,437
Current liabilities	33,227	23,761
Non-current liabilities	26,250	37,500
Income	12,437	13,733
Expenses	14,775	13,689
Income tax expense	3	50
Loss for the year	2,341	6

The Group has discontinued recognition of its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

	2007 HK\$'000	2006 HK\$'000
Unrecognised share of losses of jointly controlled entities for the year	(210)	(315)
Accumulated unrecognised share of losses of jointly controlled entities	(801)	(486)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

19. INVENTORIES

	2007 HK\$'000	2006 HK\$'000
Raw materials	1,812	1,672
Work in progress	41	8
	<u>1,853</u>	<u>1,680</u>

20. PROPERTY HELD FOR SALE

The Company has acquired a property in Hong Kong during the year and the property was disposed of to an independent third party at a consideration of HK\$5,170,000 subsequently after the balance sheet date. Thus, the property is classified as current assets.

21. INVESTMENTS HELD FOR TRADING

Investments held for trading represent equity securities listed on The Stock Exchange of Hong Kong Limited.

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID

The Group has a policy of allowing its trade customers credit periods normally ranging from 90 days to 120 days. Included in trade and other receivables and deposits paid are trade receivables of HK\$2,997,000 (2006: HK\$6,296,000) and their aged analysis is as follows:

	2007 HK\$'000	2006 HK\$'000
0 – 90 days	2,877	3,982
91- 180 days	12	1,077
181 – 365 days	108	700
Over 1 year	–	537
	<u>2,997</u>	<u>6,296</u>

Before accepting any new customers, the Group uses an internal credit assessment process to assess the potential customers' credit quality and defines credit limits by customers. Limits attributed to customers are reviewed regularly. 18% (2006: 21%) of the trade receivables that are neither past due nor impaired have good repayment history in prior years.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$120,000 (2006: HK\$2,314,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 32 days (2006: 68 days).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

22. TRADE AND OTHER RECEIVABLES AND DEPOSITS PAID (continued) Ageing of trade receivables which are past due but not impaired

	2007 HK\$'000	2006 HK\$'000
91-180 days	12	1,077
More than 180 days	108	1,237
	<u>120</u>	<u>2,314</u>

The trade debtors that were past due but not impaired related to customers that have good track records with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Movement in the allowance for doubtful debts

	2007 HK\$'000	2006 HK\$'000
Balance at beginning of the year	12,822	10,106
Impairment losses recognised on receivables	3,289	2,716
Amounts recovered during the year	(1,153)	–
	<u>14,958</u>	<u>12,822</u>

The impairment loss recognised on trade receivables is mainly because of those trade debtors have financial difficulties.

In addition, included in trade and other receivables and deposits paid are deposits paid in respect of production of a film and artists' fees of HK\$3,126,000 (2006: HK\$2,321,000).

23. LOAN RECEIVABLE

The amount is unsecured fixed-rate loan receivable, which carries interest at 8.4% per annum. The loan is receivable within twelve months of the balance sheet date and therefore was classified as current asset.

24. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity is unsecured, non-interest bearing and repayable on demand. The amount is denominated in RMB, foreign currency of the relevant group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

25. AMOUNT DUE FROM A RELATED COMPANY

The amount due from a related company, 廣州東影影視出品有限公司 (“Tung Ying”), in which a brother of Mr. Wong Pak Ming (“Mr. Wong”) has a beneficial interest, was unsecured, non-interest bearing and was fully settled during the year. The amount is denominated in RMB, foreign currency of the relevant group entities.

26. PLEDGED BANK DEPOSITS

At 31st December, 2007, the amount of HK\$533,000 (2006: HK\$1,556,000) represents deposits pledged to banks to secure banking facilities granted to the Group. These deposits have been pledged to secure bank overdrafts and are therefore classified as current assets.

The deposits carry fixed interest rate ranging from 2.6% to 3.2% (2006: 2.8% to 3.3%) per annum. The pledged bank deposits will be released upon the termination of relevant banking facilities.

27. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at 1.2% to 4.8% (2006: 2% to 3%) per annum and have original maturity of three months or less.

The amount of the Group's bank balances and cash denominated in foreign currency of the relevant group entities are set out below:

	RMB HK\$'000	USD HK\$'000
At 31st December, 2007		
Bank balances and cash	283	6,885
At 31st December, 2006		
Bank balances and cash	899	3,153

28. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED

Included in trade and other payables are trade payables of HK\$3,514,000 (2006: HK\$2,520,000) and their aged analysis is as follows:

	2007 HK\$'000	2006 HK\$'000
0 – 90 days	2,631	1,941
91- 180 days	320	579
181 – 365 days	172	–
Over 1 year	391	–
	<u>3,514</u>	<u>2,520</u>

In addition, included in trade and other payables and deposits received are deposits received from distributors of HK\$17,810,000 (2006: HK\$14,178,000) for the distribution of films.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

28. TRADE AND OTHER PAYABLES AND DEPOSITS RECEIVED (continued)

The amount of the Group's trade and other payables denominated in foreign currency of the relevant group entities are set out below:

	RMB HK\$'000
At 31st December, 2007	
Trade and other payables	10,708
At 31st December, 2006	
Trade and other payables	5,177

29. BANK AND OTHER BORROWINGS

	2007 HK\$'000	2006 HK\$'000
Bank loans	6,896	5,527
Bank overdraft	–	416
Other loans	13,523	13,046
	<u>20,419</u>	<u>18,989</u>
Secured	3,803	5,943
Unsecured	16,616	13,046
	<u>20,419</u>	<u>18,989</u>
Total bank and other borrowings		
Fixed-rate	13,523	13,046
Variable-rate	6,896	5,943
	<u>20,419</u>	<u>18,989</u>

The maturity of the bank and other borrowings is as follows:

On demand or within one year	19,882	5,362
More than one year, but not exceeding two years	272	13,421
More than two years, but not exceeding five years	265	206
	<u>20,419</u>	<u>18,989</u>
Less: Amount due within one year shown under current liabilities	(19,882)	(5,362)
Shown under non-current liabilities	<u>537</u>	<u>13,627</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

29. BANK AND OTHER BORROWINGS (continued)

The amounts of the Group's borrowings that are denominated in foreign currency of the relevant group entities are set out below:

	Total HK\$'000
As at 31st December, 2007	
Other loan	2,885
As at 31st December, 2006	
Other loan	2,885

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates are as follows:

	2007 HK\$'000	2006 HK\$'000
On demand or within one year	13,190	–
More than one year, but not exceeding two years	167	13,046
More than two years, but not exceeding five years	166	–
	<u>13,523</u>	<u>13,046</u>

In addition, the Group has variable-rate borrowings which carry interest at prime rate. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2007	2006
Effective interest rate:		
Fixed-rate borrowings	1% to 3%	1% to 3%
Variable-rate borrowings	4.75% to 7.5%	3% to 9%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

30. OBLIGATIONS UNDER A FINANCE LEASE

It is the Group's policy to lease its motor vehicle under finance lease. The lease term is five years. Interest rate underlying all obligations under a finance lease is fixed at contract date of 4%. This lease has no terms of renewal or purchase options and escalation clauses. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Amounts payable under a finance lease				
Within one year	110	110	92	92
In more than one year but not more than two years	110	110	92	92
In more than two years but not more than three years	110	110	92	92
In more than three years but not more than four years	11	110	8	92
In more than four years but not more than five years	–	11	–	8
	<u>341</u>	<u>451</u>	<u>284</u>	<u>376</u>
Less: future finance charges	<u>(57)</u>	<u>(75)</u>		
Present value of lease obligations	<u>284</u>	<u>376</u>		
Less: Amount due for settlement with 12 months (shown under current liabilities)			<u>(92)</u>	<u>(92)</u>
Amount due for settlement after 12 months			<u>192</u>	<u>284</u>

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

31. DEFERRED TAXATION

The followings are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation HK\$'000
At 1st January, 2006	677
Credit to consolidated income statement for the year	(206)
At 31st December, 2006	471
Charge to consolidated income statement for the year	37
At 31st December, 2007	<u>508</u>

At 31st December, 2007, the Group has unused tax losses of approximately HK\$77,042,000 (2006: HK\$38,099,000) available for offset against future profits. No deferred tax asset in respect of such losses has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

32. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st January, 2006 and 31st December, 2006 and 31st December, 2007	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st January, 2006 and 1st January, 2007	330,000,000	33,000
Issue of shares (note a)	30,000,000	3,000
Open Offer (note b)	180,000,000	18,000
Issue of shares (note c)	<u>36,000,000</u>	<u>3,600</u>
At 31st December, 2007	<u>576,000,000</u>	<u>57,600</u>

The shares issued during the year rank pari passu with the then existing shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

32. SHARE CAPITAL (continued)

Notes:

- (a) On 29th May, 2007, arrangements were made for a private placement of new shares to Capeland Holdings Limited (“Capeland”), a company incorporated in the British Virgin Islands, the entire issued share capital of which is wholly and beneficially owned by Mr. Wong of 30,000,000 shares of HK\$0.10 each in the Company, at a price of HK\$1.33 per share representing a premium of approximately 5% to the closing market price of HK\$1.267 per share of the Company on 29th May, 2007.

Pursuant to a subscription agreement of the same date, Capeland subscribed for 30,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$1.33 per share. The proceeds were used to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 31st May, 2007 and rank pari passu with the then existing shares in issue in all respects.

- (b) On 14th September, 2007, the Company had completed the Open Offer by issuing 180,000,000 shares (“Open share(s)”) on the basis of one Open share for every two existing shares, at the subscription price at HK\$0.50 each. The proceeds were used to further strengthen its financial position and expand its capital base and business.

- (c) On 17th September, 2007, arrangements were made for another private placement to Capeland of 36,000,000 shares of HK\$0.10 each in the Company, at a price of HK\$0.57 per share representing a discount of approximately 16% to the closing market price of HK\$0.68 per share of the Company on 17th September, 2007.

Pursuant to a subscription agreement of the same date, Capeland subscribed for 36,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$0.57 per share. The proceeds were used to provide additional working capital for the Company. These new shares rank pari passu with the then existing shares in issue in all respects.

33. SHARE-BASED PAYMENT TRANSACTIONS

The Company’s share option scheme was adopted pursuant to a resolution passed on 21st August, 2001 (the “Scheme”) for the purpose of recognising the contribution of the senior management and full-time employees of the Group. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company’s shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the issued share capital of the Company for the time being, without prior approval from the Company’s shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

33. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Options granted must be taken up within 28 days from the date of grant upon payment of HK\$1 per each grant of option(s). Options may generally be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors of the Company may at its discretion determine the specific exercisable period and exercise price. The exercise price shall not be less than the highest of: (i) the closing price of Company's share as stated in the daily quotations sheets of the Stock Exchange on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the daily quotation sheet of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share, subject to the terms of the Scheme.

Details of the share options granted under the Scheme to directors of the Company and certain employees of the Group under the Scheme during the year and movement in such holding during the year are as follows:

	Date of grant	Vesting date	Exercisable period	Exercise price per share HK\$	Outstanding	Outstanding	Granted during the year	Granted during the year	Adjustments (note)	Forfeited during the year	Outstanding
					at 1st January, 2006	at 1st January, 2007					at 31st December, 2007
Directors	23.6.2006	23.6.2006 to 24.12.2006	24.12.2006 to 20.8.2011	0.841	-	1,968,000	1,968,000	-	228,288	(732,096)	1,464,192
	10.5.2007	10.5.2007 to 22.11.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	9,750,000	1,131,000	(3,906,000)	6,975,000
Employees	23.6.2006	23.6.2006 to 24.12.2006	24.12.2006 to 20.8.2011	0.841	-	656,000	656,000	-	76,096	-	732,096
	10.5.2007	10.5.2007 to 22.11.2007	22.11.2007 to 20.8.2011	0.789	-	-	-	2,250,000	261,000	-	2,511,000
					-	2,624,000	2,624,000	12,000,000	1,696,384	(4,638,096)	11,682,288

Note: The number and exercise price of the share options were adjusted as a result of the completion of Open Offer in the proportion of one Open share for every two existing shares held on 24th August, 2007. The exercise prices shown above represent the adjusted exercise prices as at 31st December, 2007.

The closing price of the shares of the Company on 10th May, 2007 immediately before the grant of the share options was HK\$0.753 per share.

During the year ended 31st December, 2007, options were granted on 10th May. The estimated fair values of the options granted for the year is HK\$2,695,000. During the year ended 31st December, 2006, options were granted on 23rd June. The estimated fair values of the options granted for the year was HK\$523,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

33. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Upon the cessation of the directorship, the Company forfeited 4,638,096 share options during the year and the estimated fair value of share options being transferred to accumulated losses was amounting to HK\$917,000.

These fair values were calculated using the Black-Scholes Option Pricing (the "Model"). The inputs into the Model were as follows:

	2007	2006
Closing share price at the date of grant	HK\$0.753	HK\$0.93
Exercise price	HK\$0.789	HK\$0.938
Expected volatility	40.11%	23.28%
Expected life	3 years	3 years
Risk-free rate	3.98%	4.70%
Expected dividend yield	N/A	N/A
Fair value per share option	HK\$0.225	HK\$0.2

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the Model has been adjusted, based on the management's best estimate, for the efforts of non transferability, exercise restrictions and behavioral considerations.

The consideration of HK\$8 was received during the year for taking up the options granted.

The Group recognised the total expense of HK\$2,695,000 for the year ended 31st December, 2007 (2006: HK\$523,000) in relation to share options granted by the Company.

The fair values were calculated by Greater China Appraisal Limited an independent third party. The Model is one of the commonly used models to estimate the fair value of the options. The value of an option varies with different variables of certain subjective assumptions. Any changes in the variables so adopted may materially affect the estimation of the fair value of an option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

34. OPERATING LEASE COMMITMENTS

Minimum lease payments under operating leases during the year:

	2007 HK\$'000	2006 HK\$'000
Premises	<u>2,195</u>	<u>1,357</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
Within one year	3,004	214
In the second to fifth years inclusive	<u>2,610</u>	<u>–</u>
	<u>5,614</u>	<u>214</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of one to two years with rental fixed throughout the rental period.

35. CAPITAL COMMITMENTS

At 31st December, 2007, the Group had no capital commitment (2006: HK\$20,058,000, which was contracted for the investment in a joint venture in the PRC).

36. OTHER COMMITMENTS

At the balance sheet date, the Group had the commitments for the following expenditure in respect of:

	2007 HK\$'000	2006 HK\$'000
Production of a film	1,822	157
Artists' fees	<u>4,859</u>	<u>16,783</u>
	<u>6,681</u>	<u>16,940</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

37. BANKING FACILITIES AND PLEDGE OF ASSETS

At 31st December, 2007, the Group's banking facilities are secured by the following:

- (1) the unlimited corporate guarantee given by the Company;
- (2) the personal guarantee given by a director of the Company;
- (3) the legal charge over the copyright of one film with a carrying value of HK\$1,134,000, included in film production in progress at 31st December, 2007 (2006: HK\$4,200,000);
- (4) the assignment of income receivables to be derived from the licensing of the film "Wonder Woman" (2006: "Dragon Tiger Gate") in all territories throughout the world;
- (5) certain of its prepaid lease payments and buildings with a carrying value of HK\$3,388,000 (2006: HK\$3,559,000); and
- (6) bank deposits as set out in note 26.

38. RETIREMENT BENEFITS PLANS

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary.

For members of the MPF Scheme, the Group contributes the lower of HK\$1,000 or 5% of relevant payroll costs to the scheme, this contribution is matched by the employees.

The employees of the Company's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

During the year, the retirement benefit scheme contributions amounted to approximately HK\$658,000 (2006: HK\$607,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

39. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Company had completed the acquisition of property interest in Chengdu through the acquisition of the entire equity interest in Profit Source International Limited, a company which holds 90% equity interest in Chengdu Zhougfa Real Estate Development Co., Ltd, a joint venture enterprise in the PRC. The total consideration for the acquisition is HK\$240 million. Details are set out in the circular issued by the Company on 12th March, 2008.

40. RELATED PARTY DISCLOSURES

(i) Related party transactions

During the year, the Group entered into the following significant transactions with related parties:

Nature of transactions	Notes	2007	2006
		HK\$'000	HK\$'000
Agency fees paid	(a)	568	874
Rental expenses paid	(b)	983	—

Notes:

- (a) The agency fees are charged by Tung Ying for the distribution income generated by Tung Ying on behalf of the Group, in which it acted as an agent to generate that income.
- (b) The rental expenses for certain office premises are paid to Pure Project Limited, a related company in which Mr. Wong Pak Ming, the director of the Company has beneficial interest.

(ii) Compensation of key management personnel

The remuneration of the key management personnel during the year was as follows:

	2007	2006
	HK\$'000	HK\$'000
Short term benefits	4,548	3,600
Retirement benefit scheme contributions	62	60
Share-based payment expenses	2,190	390
	<u>6,800</u>	<u>4,050</u>

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

(iii) Related party balances

Details of the balances with a jointly controlled entity/a related company and other loans of HK\$13,036,000 (2006: HK\$13,046,000) from Mr. Zhang Xun, a substantial shareholder of the Company, as at the respective balance sheet dates are set out in the Notes 24, 25, and 29 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

41. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company at 31st December, 2007 and 2006 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by Company		Principal activities
			%		
			2007	2006	
Adore Capital Limited	BVI	US\$1 ordinary shares	100	–	Investment holding
Chili Advertising & Promotions Limited	Hong Kong	HK\$10,000 ordinary shares	100	100	Provision of advertising and promotional services
Ease Brilliant Limited	Hong Kong	HK\$1 ordinary shares	100	–	Property holding
Fame Sight Investment Limited	Hong Kong	HK\$1 ordinary shares	100	–	Investment holding
Good Phase Limited	Hong Kong	HK\$1 ordinary shares	100	–	Inactive
Grimston Limited	BVI/ Hong Kong	US\$10,000 ordinary shares	100	100	Investment holding
Mandarin Films Distribution Company Limited	Hong Kong	HK\$20 ordinary shares HK\$10,000,000 non-voting deferred shares (note)	100	100	Distribution of films produced or purchased by the Group
Mandarin Films Distribution Co., Ltd.	BVI	US\$10,000 ordinary shares	100	100	Distribution of films produced or purchased by the Group
Mandarin Films Limited	Hong Kong	HK\$100 ordinary shares	100	100	Production and distribution of films

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

41. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued share capital held by Company		Principal activities
			%		
			2007	2006	
Mandarin Laboratory Limited	Hong Kong	HK\$10,000 ordinary shares	100	100	Distribution of films produced by third parties
Mandarin Laboratory (International) Limited	Hong Kong	HK\$1,000,000 ordinary shares	100	100	Film processing and storage of films
Mandarin Motion Picture Limited	Hong Kong	HK\$500,000 ordinary shares	100	100	Production of films
Mega Fame Corporation Limited	Hong Kong	HK\$1 ordinary shares	100	–	Investment holding
Sino Step Inc.	BVI	US\$1 ordinary shares	100	–	Investment holding
Walsbo Limited	Hong Kong	HK\$2 ordinary shares HK\$9,800 non-voting deferred shares (note)	100	100	Investment holding
Well Merit (Hong Kong) Limited	Hong Kong	HK\$1 ordinary shares	100	–	Securities trading

Note: The deferred shares practically carry no rights to dividends or to receive notice to attend or vote at any general meeting of the Company or to participate in any distribution on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

The Company directly holds the interest in Grimston Limited and Adore Capital Limited. All other interests shown above are indirectly held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

42. SUMMARISED BALANCE SHEET OF THE COMPANY

The summarised balance sheet of the Company as at 31st December, 2007 is as follows:

	2007 HK\$'000	2006 HK\$'000
ASSETS		
Investments in subsidiaries	6,172	6,172
Amounts due from subsidiaries	154,969	39,651
Prepayment	–	145
Bank balances and cash	30,397	66
	<u>191,538</u>	<u>46,034</u>
LIABILITY		
Accrued charges	96	408
	<u>191,442</u>	<u>45,626</u>
CAPITAL AND RESERVES		
Share capital	57,600	33,000
Reserves (note)	133,842	12,626
	<u>191,442</u>	<u>45,626</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

42. BALANCE SHEET OF THE COMPANY (continued)

Note:

Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2006	34,653	44,072	–	(64,933)	13,792
Loss for the year	–	–	–	(1,689)	(1,689)
Recognition of equity-settled share-based payment expenses	–	–	523	–	523
At 31st December, 2006	34,653	44,072	523	(66,622)	12,626
Loss for the year	–	–	–	(3,451)	(3,451)
Placing of new shares	125,820	–	–	–	125,820
Transaction costs attributable to issue of shares	(3,848)	–	–	–	(3,848)
Transferred to accumulated losses on forfeiture of share options	–	–	(917)	917	–
Recognition of equity-settled share-based payment expenses	–	–	2,695	–	2,695
At 31st December, 2007	<u>156,625</u>	<u>44,072</u>	<u>2,301</u>	<u>(69,156)</u>	<u>133,842</u>

The contributed surplus of the Company represents the excess of the combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange thereof at the time of the group reorganisation in 2001.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial periods is as follows:

	For the year ended 31st December,				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
RESULTS					
Revenue	58,535	53,192	43,256	77,165	76,718
Profit (loss) before taxation	1,544	(55,877)	(19,863)	784	(40,193)
Income tax (expense) credit	(1,011)	(466)	1,244	889	126
Profit (loss) for the year	533	(56,343)	(18,619)	1,673	(40,067)
Attributable to:					
Equity holders of the Company	551	(56,269)	(18,619)	1,673	(40,067)
Minority interests	(18)	(74)	–	–	–
	533	(56,343)	(18,619)	1,673	(40,067)
At 31st December,					
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
ASSETS AND LIABILITIES					
Total assets	174,585	113,529	122,614	109,885	219,163
Total liabilities	(48,182)	(43,469)	(70,240)	(55,196)	(56,514)
	126,403	70,060	52,374	54,689	162,649
Attributable to:					
Equity holders of the Company	126,141	69,872	52,374	54,689	162,649
Minority interests	262	188	–	–	–
	126,403	70,060	52,374	54,689	162,649